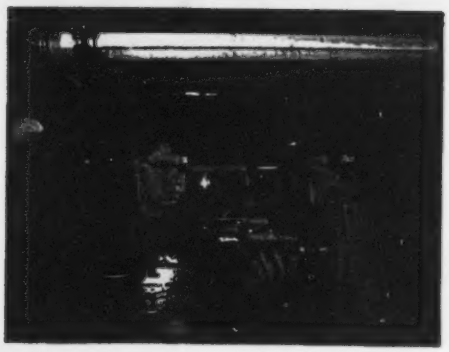
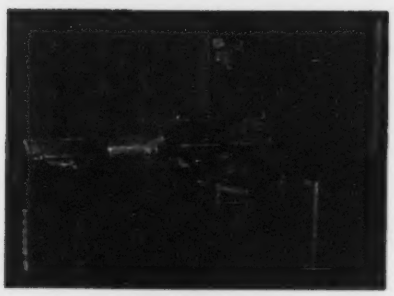
Prince Edward Island Business Development Inc.

Annual Report 2006–2007



Prince Edward Island Business Development Inc.



Atlantic Technology Centre

PEI Food Technology Centre

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Honourable Richard Brown
Minister of Development and Technology
PO Box 2000
Charlottetown, PE
C1A 7N8

Dear Minister,

I respectfully submit PEI Business Development Inc. Annual Report for the fiscal year ending March 31, 2007.

Prince Edward Island Business Development offers business programs and services to our clients across the province.

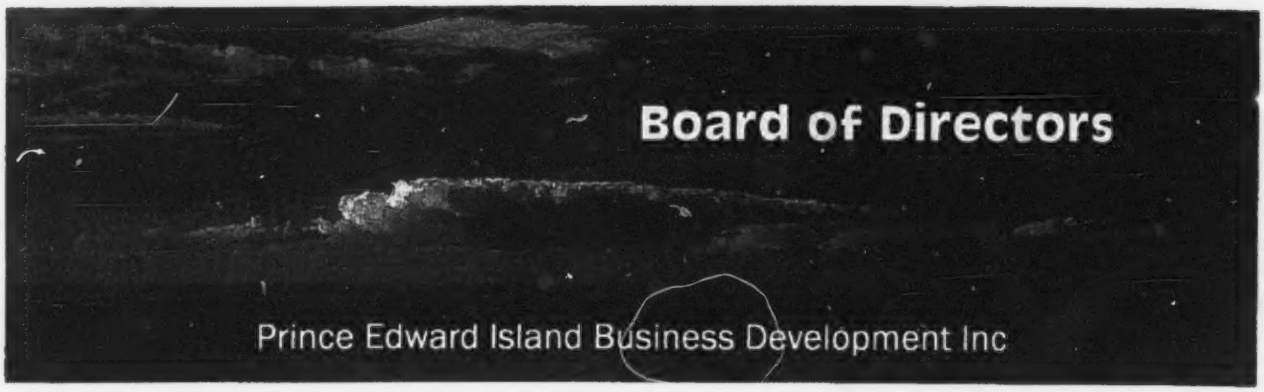
PEI Business Development Inc., the Food Technology Centre (FTC) and the Atlantic Technology Centre (ATC) continue to make significant progress. As a result of work carried out by the dedicated professionals employed with the agencies, new businesses were established, many existing companies expanded, lucrative contracts were signed in export markets and hundreds of new jobs were created. In addition, several new training opportunities were offered across the province.

Our objective is to enhance the overall business climate across the province and to get the message out that Prince Edward Island is open for business. This province has much to offer in this regard. We continue to offer low corporate taxes, a skilled and eager workforce and extremely competitive operating costs. As a result we continue to see tremendous growth in developing sectors such as Aerospace, Manufacturing, BioScience, Food Processing and Information Technology.

I would like to thank our employees for their hard work in helping our clients to identify opportunities and maximize our economic potential for the betterment of all Islanders.

Sincerely,

Allan Smith, CEO
Prince Edward Island Business Development Inc.



PEI Business Development Inc.

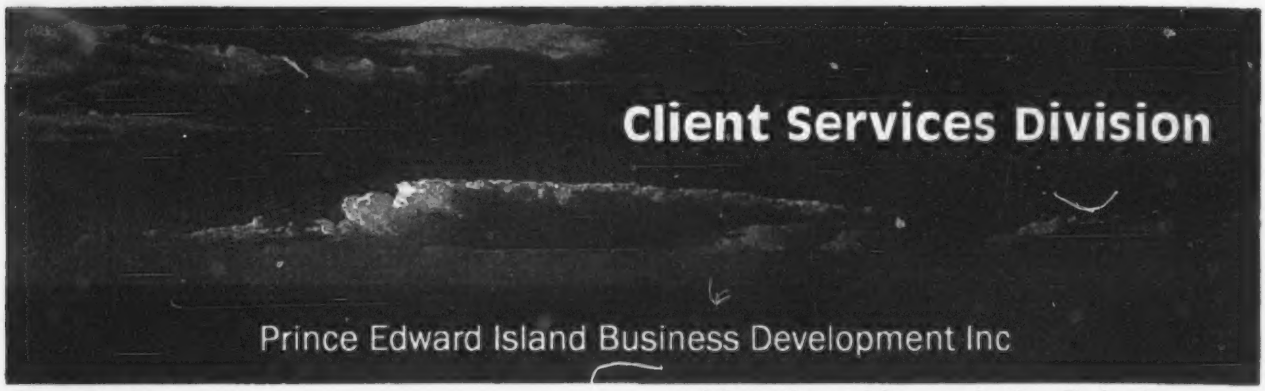
- Hon. Michael F. Currie, Vice-Chair
- Tom Deblois, Director
- Mike O'Brien, Deputy Minister & Chair
- Denis Gallant, Director
- Paul Jelley, Director
- James Johnston, Director
- Allan Smith, Secretary/Treasurer

Atlantic Technology Centre

- Mike O'Brien, Deputy Minister & Chair
- Reagh Hicken, Director
- Allan Smith, Director

PEI Science & Technology

- Mike O'Brien, Deputy Minister & Chair
- Allen Stoolmiller, Director
- Allan Smith, Secretary/Treasurer
- Paul Bernard, Director
- Alan Baker, Director
- Shauna Sullivan Curley, Director
- Dr. Murray McLaughlin, Director
- David Riley, Director
- Reagh Hicken, Director



Client Services

Support for the small business community continues to be a high priority within PEI Business Development Inc. The Client Services Division is responsible for coordinating and delivering information and assistance to new and existing businesses in Prince Edward Island. Specifically, the Division provides counselling, financial assistance, business guidance, entrepreneur education and management development to assist businesses with start-up, expansion and diversification of business that supports the long-term viability of Island companies.

The Division actively supports small business and encourages entrepreneurship through cost-shared financial assistance for capital acquisitions, market development, technology, training and innovation. Presently, the Division delivers 15 different incentive programs targeted at a variety of industry sectors. More than 347 projects received direct assistance under a variety of small business support programs at PEI Business Development Inc. during this fiscal year.

Small Business Counselling and Mentoring

Small business counselling is our most significant service and is available in seven (7) locations across PEI through Access PEI Centres, the Canada/PEI Business Service Centre and at the PEI Business Development Inc. main Office. Counselling, information provision and mentoring were provided to clients through an estimated 4,000 client meetings in the past year, as well as countless other forms of client communications.

Sector Development

The Division is focusing on specific sector development and provides dedicated staff in Food and Bioscience, Craft and Giftware, Film and Television as well as Information and Communications Technology. The Information and Communications Technology Sector was highlighted this year to demonstrate our commitment to this sector. In addition to having a dedicated staff working specifically with this important sector, some key initiatives including the following:

- Launchpad - a mentoring and coaching program for innovative Technology related business start-ups
- Supported the continued growth of the IT Sector in the Province through the Innovation.Technology Association of PEI (ITAP) and a Tech Talk Speakers Series
- Assisted eight Island companies in building managerial skill capacity and innovation strategies through the Innovation Acceleration Project Round III
- Assisted nine IT companies in the development of new technology solutions for export markets
- Assisted six non-IT companies in the implementation of IT solutions to improve productivity and competitiveness in export markets

Self Employment Benefit Program

The Division delivers a Self Employment Program under a contract with Human Resources Skills Development Canada. The program assists individuals that are Employment Insurance eligible to explore self employment as a career option.

More than one hundred and fifty participants received assistance resulting in the development of 75 projects for evaluation. Fifty-five business participants were approved under the program during the previous 12 month period and received support with development and implementation of a business plan resulting in 45 new business start-ups which employ 60 people.

Forty-five workshops were also delivered to clients to help build their business plans and businesses.

Client Services Division

Progressive Tax Rebate Programs

The Progressive Tax Rebate Programs provide a suite of measures to counter specific structural impediments in the economy.

The four individual tax rebates are in place to

- promote the development of intellectual property and the production of innovative products and services for export to the world;
- assist firms in increasing productivity and competitiveness;
- encourage Islanders to invest in Island companies; and
- help attract new expertise to accelerate the Island's participation in emerging, global opportunities.

The results of these initiatives have been very positive again this year with a commitment of $3,011,054 to projects valued at $14,800,394, which created 180 jobs.

Program	Projects
Innovation and Development Tax Credit	23 projects
Enriched Investment Tax Credit	3 projects
Specialized Labour Tax Credit	11 projects
Share Purchase Tax Credit	2 projects

Progressive Tax Rebate Programs

Results: **$3,011,054 projects valued at $14,800,394 which created 180 jobs.**

Innovation and Development Tax Credit

Designed to promote the development of intellectual property and the production of innovative products and services for export to the world.

Enriched Investment Tax Credit

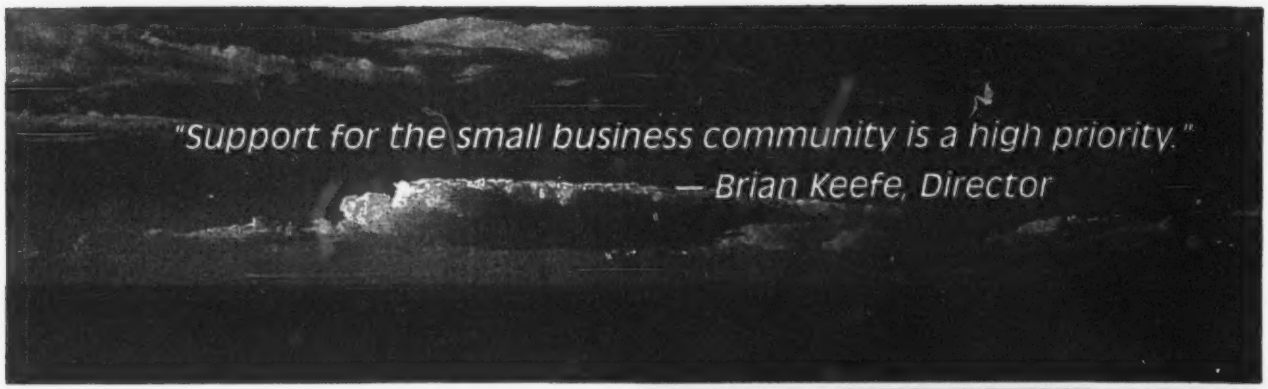
To assist firms to increase productivity and competitiveness.

Specialized Labour Tax Credit

To help attract new expertise to accelerate the Island's participation in emerging, global opportunities.

Share Purchase Tax Credit

To encourage Islanders to invest in Island companies.



Small Business Management Skills

Small Business represents a significant part of Prince Edward Island Economy. However, this segment faces significant challenges. Statistics indicate that a large majority of small businesses fail within the first 10 years of operation.

The Division recognizes today's entrepreneurs require ongoing development of business management skills and tools that enable them to enhance their capabilities to pursue trade and export opportunities and improve their competitiveness both locally and globally. In response, PEI Business Development Inc. has developed many initiatives to help small businesses in this area.

- Over the past year, through Profit Learn PEI, Client Services has assisted in the delivery of 65 small business training courses offered in seven communities across Prince Edward Island. The courses attracted 801 small business participants.
- Supported the efforts of Entrepreneurs' Forum (Mentoring) in helping Island businesses address critical business issues.
- Hosted a network conference of all business practitioners across the province, to discuss partnering opportunities for the mutual benefit of clients.
- Succession planning information sessions were developed and delivered in our two major cities.
- Staff joined clients in receiving comprehensive training under a program called "Finance for the Non Financial Manager" through the Schulich School of Business.
- Craft Training and Educational seminars for individuals and groups were completed.

Highlights — Client Services Division

The results of work carried out by the Client Services Division of PEI Business Development Inc. is evident across the province.

Most of the job creation of this Division stems from the development and growth of small businesses with one or two jobs at a time. In 2006-2007, the Division was involved in assisting the private sector realize 397employment opportunities.

Samples include the following:

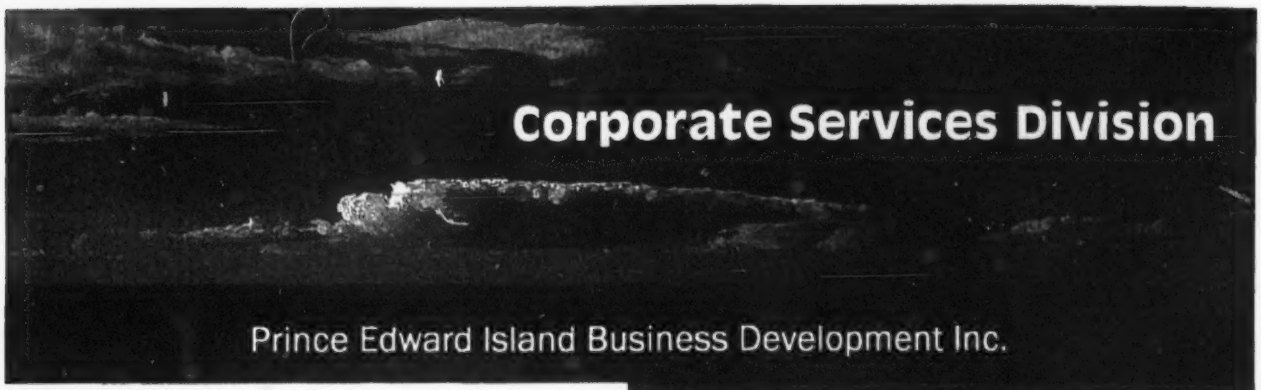
Hay Enterprises operating as Chandler Home Centre specializing in the export of millwork.

- The company expanded from 12 to 33 jobs.

Trout River Industries located in Coleman, Prince Edward Island.

- The company specializes in metal fabrication. It has doubled its production space and has increased from 21 to 35 employees. Trout River Industries expects to add an additional 10 employees in the next year, bringing the total staff to 45.

The Client Services Division has reached an agreement with the University of Prince Edward Island, the Greater Charlottetown Chamber of Commerce and the Greater Summerside Chamber of Commerce to deliver a business mentoring program in the upcoming year.



Corporate Services Division

Prince Edward Island Business Development Inc.

Financial Services

The Financial Services Division provides financing, strategic investments and loan guarantees in support of Prince Edward Island businesses to create, maintain or expand business opportunities that will result in wealth and job creation for the Province.

Our lending and investment activities are focused on manufacturers, processors and service providers in the Corporation's priority development sectors, with emphasis on businesses involved in exporting to domestic and international markets, import replacement and value-added processing.

As a developmental lender, the Division seeks innovative and generally higher risk projects than conventional lenders. By utilizing a non-formula approach to lending, the Division strives to maximize development opportunities for the Province while balancing financial risk of the project with the projected economic return.

The Division prides itself on providing clients with innovative financial solutions that generally involve multiple stakeholders, including conventional lenders and other business development agencies. This is achieved by using a variety of financial products, such as demand loans, revolving lines of credit, term loans, equity investments and loan guarantees to meet the client's specific financing needs.

Also, as part of its non-conventional approach to commercial lending, the Division can act as a financial intermediary, utilizing staff expertise in banking and accounting to assist clients to assemble financial packages for their projects with other lenders and government agencies.

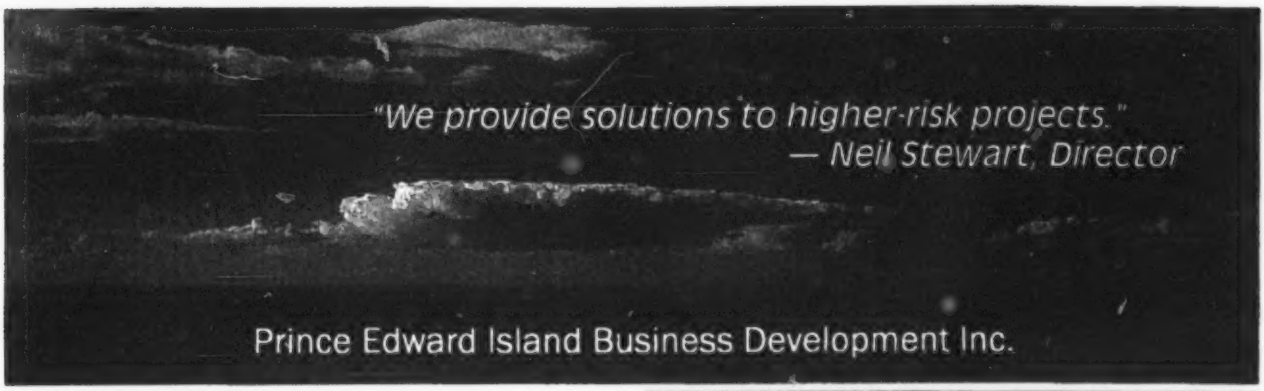
Highlights – Corporate Services Division

- Provides financing, strategic investments and loan guarantees in support of Prince Edward Island businesses. During fiscal 2007 the portfolio grew modestly bringing the total portfolio to 94 accounts totalling $46 million.

- Manages Island Investment Development Inc., a separate Crown Corporation, which invests federal immigrant funds, through low interest term financing to Prince Edward Island businesses where there will be significant economic benefit to the Province. During the past fiscal year, the portfolio exhibited strong growth in both numbers and dollars, with 36 accounts totaling $51 million, an increase of 29% and 70% respectively.

- Manages the Entrepreneur Loan Program, which meets the needs of the micro loan market by guaranteeing loans to finance small business start-ups and expansion opportunities. This program has 90 accounts with nearly $1.8 million under management. This represents a 27% increase in number and a 62% increase in dollars approved in fiscal 2007 under the Entrepreneur Loan Program.

- Manages the Winter Production Financing Program, which provides loans to new and expanding craft and giftware manufacturers to increase product inventory during the winter months to meet peak sales periods. The portfolio has 30 clients totalling $213,000.



Immigration Services

The Prince Edward Island Provincial Nominee Program is possible under a partnership agreement between the Province of Prince Edward Island and the Government of Canada, represented by Citizenship and Immigration Canada. The program is administered for the provincial government by Island Investment Development Inc., a provincial crown corporation.

The Provincial Nominee Program (PNP) is the main tool for the attraction of Immigrants to Prince Edward Island to help with the trend of out-migration and lower birth rates.

The PNP expedites the immigration to Canada of individuals and their families who meet provincial criteria for initiatives to support

- increased business and economic development;
- the supply of skilled workers;
- increased population; and
- achievement of provincial demographic, social and cultural objectives.

Prince Edward Island
CANADA

Highlights

Provincial Nominee Program

- Responsible for the attraction of 75% of the yearly intake of immigrants to Prince Edward Island
- Responsible for more than $25 million dollars of direct investment into Prince Edward Island companies annually
- Provides Prince Edward Island with the ability to directly identify and nominate candidates that suit the needs of Island companies and communities

The results

In the fiscal year March 2006–March 2007, a total of 486 applicants were nominated by the Provincial Nominee Program.

Of the 486 nominations, 348 were under the Immigrant Partner Category, 53 under the Skilled Worker Category, 5 under the Immigrant Entrepreneur Category and 80 under the Immigrant Connections Category.

These numbers represent a 100% increase in intake over Fiscal 2006-2007 which witnessed 238 nominations in all categories.

Labour Force and Youth Development

Prince Edward Island Business Development Inc.

The Labour Force and Youth Development Division coordinates and delivers programs and services to assist individuals, businesses and sector/ professional associations to explore and promote careers in Prince Edward Island.

The Division's main responsibility is to engage youth in the pursuit of skills development, leading to the next generation of PEI's skilled workforce and business leaders. Our clients include youth under the age of 30, small business, community groups and those associated with education and training in workforce development.

Our partners include the University of Prince Edward Island, Holland College, private trainers, sector associations, professional associations, K-12 sector and various labour-related agencies at the federal and provincial level.

Additional services provided to clients include consultation and counseling, access to skill development, program creation/delivery and in some cases mentorship. The Division provides a large majority of our counseling services in the communities requested by the client.

Organizational priorities such as new business creation, economic development and overall wealth creation are aligned with programs supported by the Division.

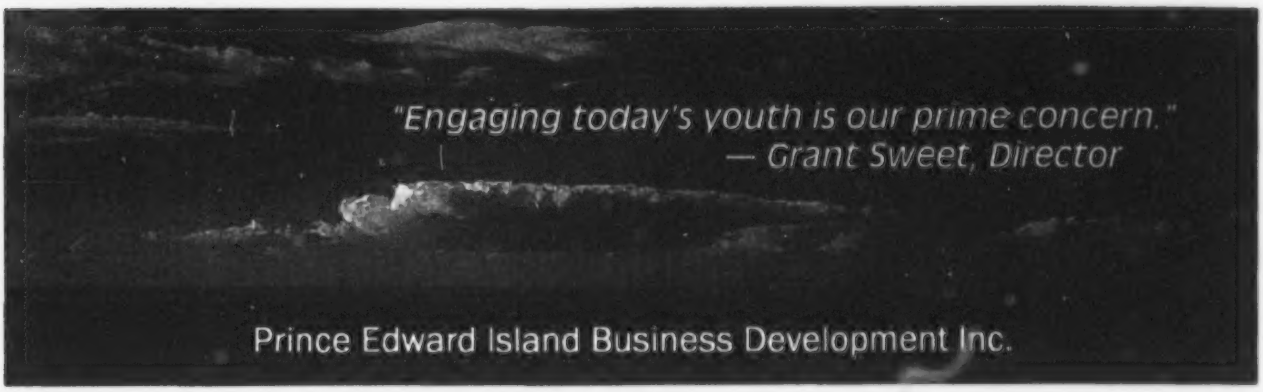
Assistance provided is not only one of a financial form, but also one that plays an active role in community boards and committees, program delivery and leadership on required infrastructure.

The Division has an active seat on the Junior Achievement Provincial Board, Skills Canada, Regional IT Centres Boards, Atlantic and National CAP Associations and various sector councils.

The Division continues to have strong relations with Industry Canada concerning the co-delivery of the Community Access Program (CAP), which in Prince Edward Island boasts 41 sites and more than 140,000 annual visits.

The federal CAP program is currently under review with confirmation of direction sometime in early 2008.

Prince Edward Island is viewed as a role model, which focuses mainly on community development, job creation and workplace experience for youth. In addition, the Division utilizes its competency in Information and Communications Technology to work with industry, communities and the Federal Government to advance further broadband capabilities in the province.



Through a Human Resource and Skill Development Canada's (HRSDC) youth initiative, the Division co-delivered a program to give youth between the ages of 15 and 30 valuable work experience in the IT sector.

Forty-two positions were created in 2006-2007 to make a total of over 580 since the inception of this partnership.

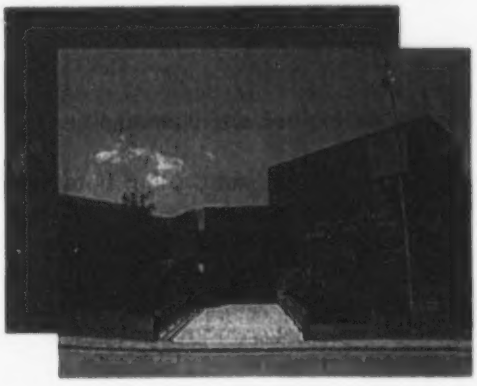
Regional Technology Centres, established in Cardigan, Kensington and O'Leary, are regional centres that provide local businesses and the general public access to the latest information and communications technologies.

In addition to rental space, smart boardrooms and broadband connectivity, the centres offer training in full-size computer labs which are heavily utilized by sector groups in agriculture and tourism.

Highlights

- 200 participants in the Seniors Net Program
- Graduated more than 250 students from the new video game design program in PEI schools called GameForce: Designers Bootcamp
- Assisted in coordinating an introductory entrepreneurial program called Our Community: Needs Jobs Tools for students at an early age and assisted in the delivery to 26 classes consisting of 496 students
- Conducted a total of 23 sessions combined in the new Bio-Tech (High School), IT Youth (High School) and IT Speaker Series for UPEI
- Worked on bid committee that won the competition to host the 2009 national Skills Canada competition
- Assumed responsibility for the recruitment of Shad Valley Program Participants
- Assumed program delivery responsibility for the Young Millionaires program in the Charlottetown and surrounding area in support of the provincial program offered in all regions
- 65 positions created and maintained in PEI communities to support the Community Access Program (CAP)

41 PEI CAP Sites functional with more than 140,000 annual visits



Trade, Marketing and Communications Division

Prince Edward Island Business Development Inc.

The mandate of the Trade group is to increase the revenues generated from export sales and to assist Prince Edward Island companies in becoming export ready.

The Division provides training, support for market-entry activities and market-specific information. The Division also represents the Province on the management committees for regional agreements such as the International Business Development Agreement and the Atlantic Canada Food Export Partnership.

Trade Missions

The Division leads a number of trade missions each year. These missions provide a cost-effective method for companies to gather information on logistics and competition. They also provide participants with face-to-face meetings with prescreened prospective partners in the target geographic areas. There are three different types of missions:

Team Canada Atlantic Missions

Team Canada Atlantic is a partnership that includes the Atlantic Canada Opportunities Agency, Agriculture and Agri-Food Canada, Industry Canada, Foreign Affairs and International Trade Canada as well as the four Atlantic Provinces. Team Canada Atlantic organizes trade missions to the United States.

Since 1999, more than 315 companies have participated in Team Canada Atlantic Trade Missions. Last year, 15 PEI companies visited Florida and have projected increased revenues of $7.6 million.

Trade Team PEI Missions

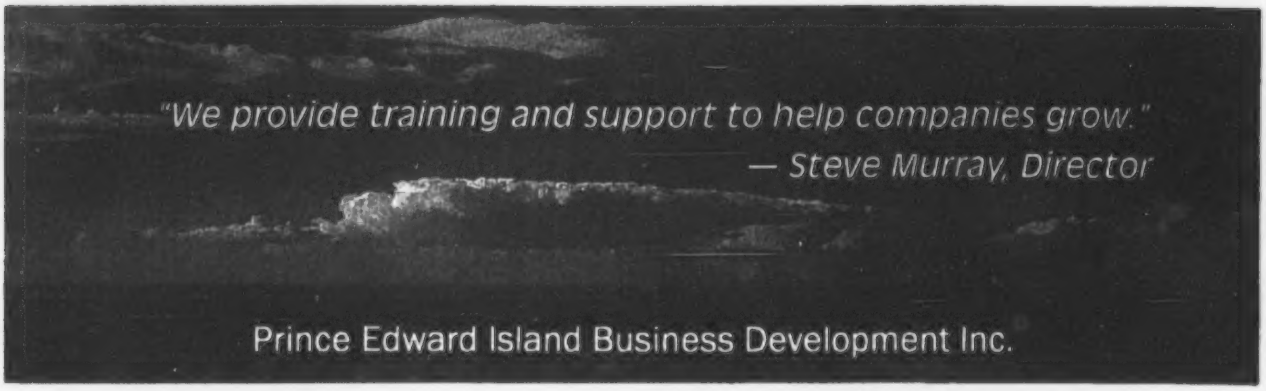
Trade Team PEI Missions involve a network of provincial and federal departments and agencies with responsibilities for trade development in Prince Edward Island. In this fiscal year, delegates have traveled to Southeast Asia, New England, Southeast USA, Barbados and South America resulting in anticipated increased revenues of $10.36 million.

Prince Edward Island Business Development Inc. Missions

The Agency leads missions to domestic markets. These include Toronto and Calgary. Last year, two missions resulted in increased revenues of $2.2 million.

Marketing

The Marketing & Communications group provides marketing support to all divisions within Prince Edward Island Business Development Inc., the Atlantic Technology Centre and the PEI Food Technology Centre. Additionally, this Division provides marketing advice and funding to Prince Edward Island businesses, develops and executes entrepreneurial training programs and organizes festivals, trade shows and other local events.


"We provide training and support to help companies grow."
— Steve Murray, Director
Prince Edward Island Business Development Inc.

Small Business Week

During Small Business week, "Women in Business" presented a symposium on October 19 & 20, 2006 that was widely attended. PEI Business Development Inc. was a major sponsor and offered assistance in organizing the event.

Boston International Seafood Festival

Prince Edward Island was the lead on this international festival, held March 12-14, 2007, which is attended by the four Atlantic Provinces. This year, several Prince Edward Island based processors exhibited and attended.

Canadian Food and Beverage Show

February 2007

Prince Edward Island Business Development Inc. coordinated the provincial booth presence for the Canadian Food and Beverage Show where five PEI processors exhibited. Chef Allan Williams from Holland College attended to prepare food samples.

Marketing Counselling and Support

This Division has provided marketing counselling support to Island small businesses in the areas of market planning, promotional tool development, sales distribution contacts and new product development.

The Division worked with companies on projects ranging from individualized training on export security to competitive intelligence to market entry. This counseling support has lead to increased sales through new market penetration.

The mandate of the Science and Innovation Division is to increase research capacity and transform innovative ideas into commercially viable products and services.

The Division shares information and knowledge of research and development (R&D) activities. Staff work cooperatively with local agencies and other government departments, both provincial and federal, to provide financial support, guidance and other services to research institutions, commercial entities and private sector businesses across all sectors.

Research and Development

The Government of Prince Edward Island is committed to supporting research and development in the province. Innovation thrives when supported by sound R&D which in turn leads to a stronger economy and job creation; thus R&D is an important component in growing Prince Edward Island knowledge based economy.

The R&D Initiative Fund was introduced in 2005-2006 to help position the province as a cornerstone of research development in Canada. The Division has completed Rounds 1 and 2 of the Initiative supporting 17 projects with a total value of 1,354,207 that leveraged a further $30 million in research investment dollars.

Preference was given to proposals that commercialize new technologies, develop new products and services for export to worldwide markets, create new jobs and wealth in PEI, revitalize and help build our communities and strengthen the overall PEI economy.

10-Year BioScience Tax Holiday

The Science and Innovation Division was involved in prospecting companies to Prince Edward Island. The implementation of the 10-year BioScience Tax Holiday has heightened prospecting results by making Prince Edward Island an attractive place to do business.

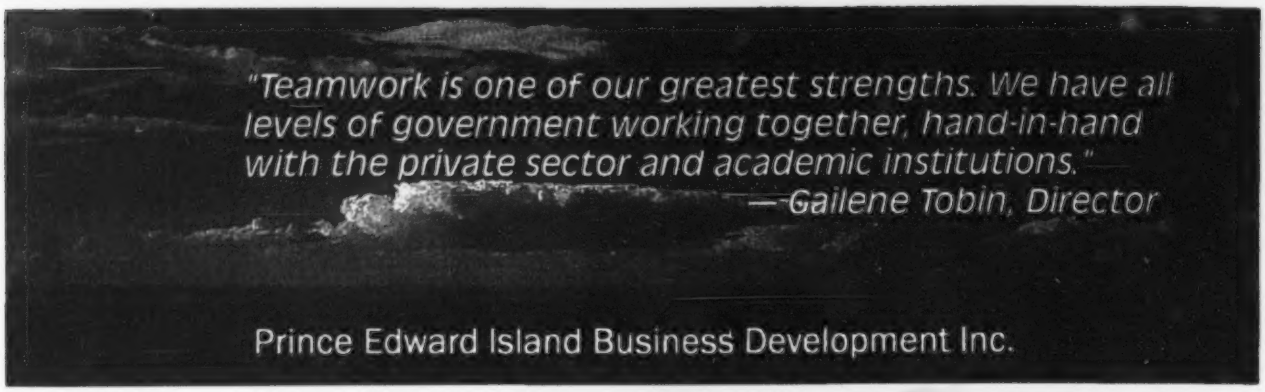
As a direct result of this incentive, Novartis identified Prince Edward Island as one of 6 sites worldwide to conduct R&D. Subsequently, the company expanded Novartis Animal Health and relocated the fish health facility to Prince Edward Island.

Other Areas Of Focus

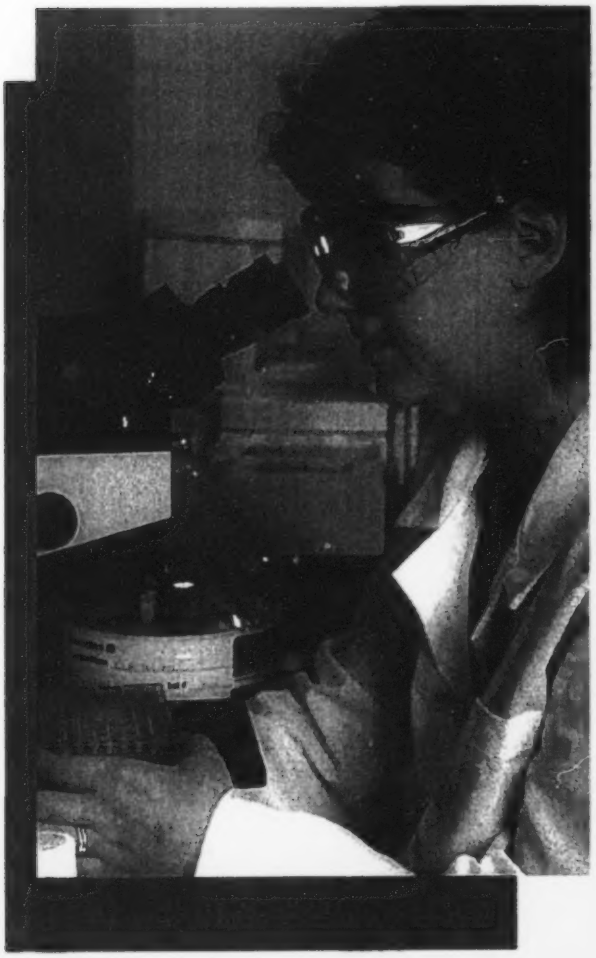
The Science and Innovation Division, through its efforts in prospecting, attended major trade events and conferences that presented potential partnerships and investments. In the past year the Division has had a presence at the following events:

- BioPort Atlantic
- BIO 2006
- Rendevous New Brunswick
- Bio North
- Innovet 2006
- BioFusion 2006

The Science and Innovation Division supports the growth and expansion of companies by assisting with partnering opportunities, marketing, as well as networking initiatives to leverage opportunities required for growth.


"Teamwork is one of our greatest strengths. We have all levels of government working together, hand-in-hand with the private sector and academic institutions."
—Gailene Tobin, Director
Prince Edward Island Business Development Inc.

The Science and Innovation Division's consistent support to local companies such as Progressive Bio-Actives has initiated mergers with international companies resulting in investment to both Prince Edward Island and the company.



Special Projects

- The BioScience Networking Speaker Series continues with eight events being hosted in the past year, involving speakers from across North America
- Delivery of the Sanofi-Aventis Biotech Challenge continues to be a success with representation from six schools from across the province
- A Life Sciences Directory was completed to track expansion and growth in our cluster
- Industry Training Sessions, including a series of Patent Protection presentations by four different patent agencies from across Canada, were completed
- Continued support to the PEI BioAlliance to enhance Prince Edward Island's BioScience Cluster
- Network Members Agreement Fund:

  This collaboration with NRC-IRAP delivered a Network Members Agreement for $75,000 to support private companies in their efforts to increase exports.

Business Investment Division

"Major international corporations are taking notice that Prince Edward Island is a great business location. The Business Investment Division has had an excellent year with many opportunities for future investment attraction.

— Brad Mix, Director

Prince Edward Island Business Development Inc.

Business Investment

The role of the Business Investment Division is to attract outside investment to establish business operations in Prince Edward Island.

The Division continues to focus on exceeding very defined goals in generating business leads, attracting new investment and creating employment opportunities in the sectors of Aerospace, Food Processing, Bioscience, Manufacturing and Information Technology.

Each of the priority sectors in Prince Edward Island have core competencies that provide competitive advantages and clear focus areas. The Business Investment Division has also identified financial services / shared services as a priority sector for attracting investments into the Province.

Prince Edward Island has many advantages to attract companies in the financial services sector which include a skilled labour force and existing infrastructure. PEI is also the lowest cost business location in the G8 according to KPMG. Over the past year, the Division has attracted eight new investments to Prince Edward Island that will create a minimum of 464 new positions in the province. The payroll for these positions over the next ten year period should exceed $150 million.

The Division coordinated three new strategic infrastructure projects including the completion of a nearshore development centre in Stratford, Prince Edward Island (CGI); the development of a financial services centre in Charlottetown (Trimark); and the development of an IT centre in Summerside (Holman Building).

The estimated development cost of the projects is more than $26 million in new construction.

The Division has developed a strategic investment profile for the financial services, IT, and environmental industries that will provide direction for investment prospecting activities over the next five years in each of these sectors.

For the upcoming year, the Division will be focusing on creating new investment opportunities. The Division is participating in a number of investment attraction activities and is poised to complete a number of projects in all sectors.

The Business Investment Division has also been responsible for increasing the awareness of Prince Edward Island as an investment location. Through an investment promotion group made up of all three levels of government called InvestPEI, several initiatives were developed including aerospace brochures, an investment web site and revised CD Rom.

Asset Management Division

Doug McNeil, Director

Prince Edward Island Business Development Inc. and Technology PEI

The Asset Management Division under the direction of Prince Edward Island Business Development Inc. administers and develops real estate property and assets owned by the Province of Prince Edward Island.

The property portfolio includes vacant parcels of land and various Industrial Parks across the Island such as West Royalty Business Park, Summerside, Bloomfield, Poole's Corner, Gateway Village and Souris Food Park. The Division also manages the properties that house industry specific divisions such as the Food Technology Centre and Atlantic Technology Centre.

Environmental Industrial Services Inc. (EISI), managed by Asset Management, owns and operates water and/or wastewater utilities at Bloomfield, Alberton, Northport, Albany, Georgetown, Mill River, Crowbush and Brudenelle Resort.

Year in Review

Asset Management has invested time and resources into the upgrading of properties under its management.

During the 2006 – 2007 fiscal year, Asset Management was involved in the following development of properties:

Anglo Tignish - The former Anglo Tignish land & buildings were conveyed to Gavco Fishing with a portion of the property conveyed to Shea's Seaweed.

Mill River Leisure Village – The village was conveyed to Mill River Holdings Ltd.

Wilmot VIC - The VIC was conveyed to the Lennox Island Native Council which successfully renovated the property to establish an attractive Business Center.

Gateway Village Development Inc. - Gateway Center and the Shops of Gateway Village entered into negotiations with Gateway PEI Inc. on the sale of Gateway Village Development Inc. The sale of the property will conclude in the 2007–2008 fiscal year.

Choice Tobacco - The former Choice Tobacco facility in Montague was purchased by PEI Business Development Inc. and subsequently leased to a small business.

Highlights

- Property assets include more than 400,000 square feet of building space.
- Land assets include more than 450 acres.
- The Asset Management Division is also involved in the preliminary stages of the development of a new Bio Park.

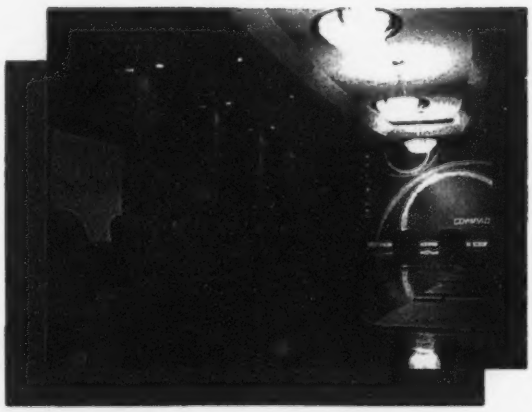
Atlantic Technology Centre

Prince Edward Island Business Development Inc. and Technology PEI

Atlantic Technology Centre (ATC) is equipped with the latest conveniences and technologies necessary for full connectivity for prosperous businesses. The facility provides an environment for growing IT and Media companies to expand, develop new partnerships and exist in a facility designed to promote development and growth.

ATC is 93 percent occupied with an on-site corporate office which acts as landlord to more than 20 companies that employ approximately 400 people within the building. Companies residing in ATC reflect industry representation in production, e-learning, health services, gaming, animation, interactive content development, advanced technical training, post production, video gaming and computer programming.

Over the next two years, ATC Corporate plans to take the facility and its tenants to the next level by exploring opportunities to export products in the international marketplace.



New Media, Education and Prince Edward Island

Islanders are becoming more educated and comfortable with various advanced technologies available to them through ATC. Companies are utilizing the technologies and facilities ATC offers. This is allowing companies to do business more cost effectively and in real time.

Companies and Departments in both the private and public sectors are realizing the value and efficiencies in utilizing the advanced technologies ATC offers.

ATC is experiencing an increase in facility use. Staff regularly receive inquiries about video conferencing for one-on-one job interviews and even large group information sessions. ATC is able to provide first class infrastructure and facilities for a wide variety of events such as press conferences for the PEI Convention Service, seminars for associations such as Red Cross and even large scale information sessions for nationally delivered Federal Departments.

ATLANTIC
TECHNOLOGY
CENTRE

CGI, one of Canada's leading IT companies is now utilizing ATC as a temporary location.

CGI develops software and provides application maintenance. The company recognizes the advantages available at ATC – infrastructure, quality office space, strategic downtown location and the key industry clusters located within the walls of ATC.

CGI moved into ATC in three phases:

- During Phase I, CGI hired staff to coordinate a main office of 3,400 square feet located on the Lower Level of ATC.
- Phase II resulted in additional hires to fill a 1,400 square foot Ground Floor office space on the University Avenue side of the facility.
- Phase III of CGI's introduction involved an expansion to fill 3,900 square feet in the newly renovated office space adjacent and connecting to their corporate office on the Lower Level.

Highlights

- Data centre increases the number of companies collocating
- Approximately 400 people employed at 21 different companies
- NewCap Broadcasting adds another state-of-the art announcers booth and increases office space requirements
- Sound Stage converted to office space to accommodate large incubating companies;
- Host to local, regional and international meetings and conferences

During 2006, ATC reached a 93 percent occupancy rate and housed approximately 21 companies from the IT and New Media industries. The facility operates through an on-site corporate office, which was incorporated into Asset Management under the crown corporation of Prince Edward Island Business Development.

The various tenants within ATC employ more than 400 people within the building and offers employment in the production, e-learning, health services, gaming, animation, interactive content development, advanced technical training, post production, video gaming and computer programming fields.

ATC has watched a majority of its New Media companies steadily grow as employers, which has resulted in corporate expansions. The New Media companies have shown positive growth patterns with the increase in employment at such companies as: Telos Productions, Backbone Entertainment (Foundation Nine), Bight Interactive and NewCap Broadcasting Inc.

ATC's Community Access Program (CAP) has been in operation at ATC since September 2004. The CAP site's main deliverable is to provide internet access to the general public via six computer terminals on the Lower Level. As part of CAP's mandate, ATC's CAP site staff offers public training classes from four training computers housed in the CAP Site.

During 2006-2007, ATC's CAP site offered approximately 264 basic computer training classes to approximately 840 people and averaged approximately 1,800 visitors per month.

Food Technology Centre

Prince Edward Island Business Development Inc. and Technology PEI

The Food Technology Centre (FTC) provides innovation and technical support for food and bioresource processors. All of the work done at the Centre is completed as project contracts or service contracts for industry.

The Centre completed 37 project contracts in fiscal year 2006-2007. There were 44 signed project contracts in progress at the end of the fiscal year and there were 41 project contracts proposed or developing at year-end.

These project contracts and service contracts earned $1,221,268 in revenue to supplement the operating grant provided by the Province of Prince Edward Island.

FTC also provides short courses and practical training to industry. Seven courses have been delivered over the past year. These courses are usually one to three days in duration and deal with food safety and sanitation. A thermal processing course for retort operators was held in January and the Centre partnered with Agriculture and Agri-Food Canada to provide a Good Laboratory Practices Workshop in March.

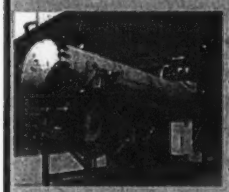
Since November 2006, The Food Technology Centre has been distributing a monthly e-newsletter to about 1800 clients and key contacts as well as to select Government contacts to promote its activities and as a marketing tool. Feedback has been very good.

The following two case studies from the newsletter illustrate the type of work being carried out at FTC:

September 2006

Charlottetown Metal Products Sells

Innovative Cookers to Seafood Processors



Charlottetown Metal Products (CMP), manufacturers of innovative food processing equipment, have recently sold two novel cookers and related processing equipment worth a total of $1 million.

These orders were for continuous-flow, high-pressure, steam cookers. Unlike most cookers on the market where the product is processed in batches and the steam is fully vented after each use, these cookers process the product through in a continuous flow. These cookers do not fully vent while operating which conserves steam during the process resulting in substantial energy savings.

The Food Technology Centre played an important role in these sales. The equipment underwent rigorous trials in the FTC pilot plant. CMP was able to prove to the end user that their cookers would perform well for their particular applications - one is being used for processing whelks in Newfoundland and the other for clams in New Brunswick. Building on these successful sales, another client in the USA is interested in using one of these cookers in another seafood application. FTC food technologists and engineers are looking forward to assisting CMP in this new opportunity.

For further information, contact:

Wendell MacDonald
Vice President of Operations
Charlottetown Metal Products
Telephone: 902-566-3044

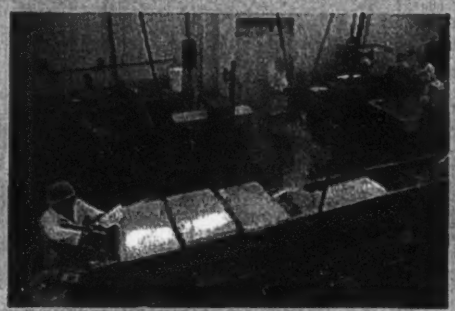
"The Food Technology Centre has a 19 year history of technology support for the private sector. Collaboration with colleagues at PEI Business Development as well as the Culinary Institute of Canada ensure that FTC's technical support is supplemented with marketing, business counselling and culinary creativity. Guiding each project is the goal of success in the marketplace and economic benefit to Prince Edward Island."

— Dr. Jim Smith, Executive Director, FTC

Prince Edward Island Business Development Inc.

January 2007

FoodTrust Launches Value-added Potato Products



FoodTrust of Prince Edward Island has launched a new line of value added potatoes in banner stores across Ontario in November. These products were featured in the Fresh for the Holidays catalogue (available online Nov. 18 to Jan. 5, 2007). The fully cooked potato products are ready to heat and serve, most of them only requiring two to four minutes in the microwave. They include the following types: Diced, Peeled Petites, Red Skin Quarters, Seasoned Wedges and 'Baked' potatoes. They are being sold next to the bagged salads and cut fruit and are seen as a quick and healthy meal add-on for today's busy consumers.

These products are currently being processed in the Food Technology Centre's pilot plant.

For further information contact:
Tyson MacInnis
FoodTrust
Telephone: 902-894-0293

Highlights

Food Technology Centre has completed the early phase of the Atlantic Innovation Fund project on Natural Products Extraction Technology. The expansion, equipment and staffing phase of the project have been completed. A number of sub-projects for companies like Ocean Nutrition Canada (ONC) and Bio-Exx have been completed and others are being signed. This project will receive $4.9 million over its five year duration from ACOA.

Expertise is being developed with this project and the private sector clients will benefit from practical technologies being transferred to their organizations during the course of the project.

- FTC is a registered ISO 9001:2000 company, has Standards Council of Canada Accreditation, is a Registered Food Processing Plant with the Canadian Food Inspection Agency and is a Certified Organic Processor. FTC has completed audits by these Certifying Bodies during the last year.
- FTC has a Health Canada Establishment License which allows analytical testing of pharmaceuticals.
- FTC has a Network Member Agreement with the National Research Council IRAP Program. This enables FTC to promote innovation and the innovation-related services of the Centre.
- FTC has a funding agreement with Canadian Dairy Commission (CDC) which allows food processors who use milk ingredients to access two funding programs. The programs give processors an opportunity for consultation and development work at the Centre.

Prince Edward Island Business Development Inc.

Consolidated Financial Statements
March 31, 2007

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

ArsenaultBestCameronEllis
CHARTERED ACCOUNTANTS

A Member Firm of The AC Group of Independent Accounting Firms Limited

Chartered Accountants &
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Canada C1A 7L1
Telephone (902) 368-3100
Fax (902) 566-5074
www.acgca.ca

May 25, 2007

Auditors' Report

To the Minister of Development and Technology

We have audited the consolidated balance sheet of **Prince Edward Island Business Development Inc.** as at March 31, 2007 and the consolidated statements of revenues and expenditures, retained earnings and cash flows for the year then ended. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using differential reporting options available to non-publicly accountable enterprises, as described in note 2(b) to the financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ArsenaultBestCameronEllis

Chartered Accountants

Prince Edward Island Business Development Inc.

Consolidated Balance Sheet

As at March 31, 2007

	2007 $	2006 $
Assets		
Current assets		
Cash and short-term investments (notes 3 and 16)	2,015,467	3,048,271
Accounts receivable (notes 4 and 21)	1,483,405	2,167,008
Accrued interest receivable	32,891	125,000
Grant receivable - ACOA	113,260	591,153
Inventory	58,078	57,098
Prepaid expenses	13,454	28,788
Current portion of loans receivable	3,037,783	8,295,050
Current portion of net investment in leases	120,981	7,290
	6,875,319	14,319,658
Due from the Province of Prince Edward Island (note 5)	19,571,538	8,944,843
Loans receivable, less current portion (note 6)	24,065,481	34,071,883
Investment in non-marketable securities (note 7)	2,415,202	2,754,009
Property holdings (note 8)	9,548,957	10,287,235
Property and equipment (notes 9, 21 and 23)	25,551,684	27,845,377
Funds held in trust (notes 3, 10 and 21)	36,867	1,180,445
Net investment in lease, less current portion (note 11)	1,110,643	613,030
	89,175,691	100,016,480
Liabilities		
Current liabilities		
Bank advances	-	332,668
Short-term notes payable (note 12)	15,000,000	12,550,603
Accounts payable and accrued liabilities (note 21)	17,663,012	16,358,139
Provision for payment of guarantees (note 17)	11,800,918	1,290,550
Deferred revenue	39,444	44,192
Deferred contributions	-	162,000
Progress billings in excess of work-in-progress	86,915	228,669
Current portion of notes payable and long-term debt	3,314,215	4,841,085
Current portion of obligation under capital lease	360,000	300,000
	48,264,504	36,107,906
Funds held in trust (notes 10 and 21)	36,867	1,180,445
Notes payable and long-term debt, less current portion (note 13)	27,248,737	47,515,880
Obligation under capital lease, less current portion (note 14)	-	360,000
Deferred credits (notes 15 and 21)	11,866,473	13,087,244
Reserve for future expenditures (note 16)	160,523	160,523
	87,577,104	98,411,998
Contingent liabilities (note 17)		
Equity		
Retained earnings	58,550	44,187
Contributed surplus (notes 18 and 21)	1,540,037	1,560,295
	1,598,587	1,604,482
	89,175,691	100,016,480

Approved by the Board of Directors

_____ Director

_____ Director

Prince Edward Island Business Development Inc.

Consolidated Statement of Retained Earnings

For the year ended March 31, 2007

	2007 $	2006 $
Retained earnings - Beginning of year	44,187	52,688
Excess expenditures for the year	(5,895)	(8,501)
Transfer from contributed surplus (note 18)	20,258	-
Retained earnings - End of year	58,550	44,187
Contributed surplus - Beginning of year	1,560,295	1,560,295
Transfer to retained earnings (note 18)	(20,258)	-
Contributed surplus - End of year	1,540,037	1,560,295

Prince Edward Island Business Development Inc.

Consolidated Statement of Revenues and Expenditures

For the year ended March 31, 2007

	2007 $	2006 $
Revenue (note 21)		
Grant - Province of Prince Edward Island	39,736,600	23,982,600
Investment income	102,720	80,796
Interest on loans receivable	2,508,365	2,705,962
Guarantee fees	109,742	102,565
Property operations	4,485,874	3,630,303
Project revenues	1,218,796	1,242,775
Retail operations (Schedule) (note 23)	144,428	144,685
	48,306,525	31,889,686
Expenditures (note 21)		
Operating	6,410,909	6,408,745
Property operations	4,530,658	4,430,487
Development programs	19,817,860	13,729,561
Allowance for credit losses and guarantee payments (note 5)	13,750,968	3,320,000
Investment operations	1,751,930	1,901,539
Project costs	588,107	609,263
Retail operations (Schedule) (note 23)	92,949	103,846
Amortization - property holdings, property and equipment and deferred costs	2,981,374	3,337,974
Amortization - deferred credits	(1,612,335)	(1,943,228)
	48,312,420	31,898,187
Excess expenditures for the year	(5,895)	(8,501)

Prince Edward Island Business Development Inc.

Consolidated Statement of Cash Flows

For the year ended March 31, 2007

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Excess expenditures for the year	(5,895)	(8,501)
Items not affecting cash		
Amortization - deferred credits	(1,612,335)	(1,943,228)
Amortization - property holdings and property and equipment	2,981,374	3,337,974
Amortization - net investment in lease	(43,000)	(43,000)
Increase in due from the Province of Prince Edward Island - allowance for possible losses	(13,750,968)	(3,320,000)
	(12,430,824)	(1,976,755)
Net change in non-cash working capital items		
Decrease in accounts receivable - net	683,603	343,958
Decrease (increase) in accrued interest receivable	92,109	(26,390)
Decrease (increase) in grant receivable - ACOA	477,893	(145,022)
Decrease in deferred contributions	(162,000)	(74,634)
Decrease (increase) in prepaid expenses	15,334	(3,631)
Increase in inventory	(980)	(1,403)
Increase in accounts payable and accrued liabilities	1,304,873	4,636,786
Increase (decrease) in provision of payment for guarantees	10,510,368	(106,917)
Decrease in deferred revenue	(4,748)	(11,419)
Decrease in progress billings in excess of work-in-progress	(141,754)	(115,260)
	343,874	2,519,313
Financing activities		
Decrease (increase) in due from Province of P.E.I. - current operations	3,124,273	(89,805)
Increase in deferred credits - net	391,564	1,084,579
Net change in funds held in trust	(1,143,585)	(1,345,521)
Increase (decrease) in short-term notes payable	2,449,397	(2,073,045)
Increase (decrease) in notes payable and long-term debt (net)	(21,794,013)	4,755,018
Decrease in obligation under capital lease	(300,000)	(150,000)
Decrease in reserve for future expenditures	-	(3,090)
	(17,272,364)	2,178,136
Investing activities		
Purchase of property and equipment - net	35,608	(1,199,481)
Reductions of and proceeds on disposal of property holdings	15,000	178,284
Decrease in investment in non-marketable securities	338,807	182,612
Decrease (increase) in loans receivable (net)	15,263,669	(6,230,347)
Increase in net investment in lease (net)	(568,308)	-
	15,084,776	(7,068,932)
Decrease in cash and short-term investments and funds held in trust	(1,843,714)	(2,371,483)
Net cash and short-term investments and funds held in trust - Beginning of year	3,896,048	6,267,531
Net cash and short-term investments and funds held in trust - End of year	2,052,334	3,896,048
Net cash and short-term investments and funds held in trust consists of:		
Cash and short-term investments	2,015,467	3,048,271
Funds held in trust	36,867	1,180,445
Bank advances	-	(332,668)
	2,052,334	3,896,048
Supplementary disclosure		
Interest and dividends received	2,678,040	2,744,920
Interest paid	3,050,111	3,254,958

1 Status of the corporation

Prince Edward Island Business Development Inc. is a Crown corporation incorporated under the Prince Edward Island Business Development Inc. Act (formerly Enterprise P.E.I. Act). Its financial results are included in the public accounts of the Province of Prince Edward Island.

2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

a) General

These consolidated financial statements include the accounts of the wholly-owned subsidiaries, F.T.C. Enterprises Limited, Environmental Industrial Services Inc., Corporate Services Ltd., Gateway Village Development Inc., Atlantic Technology Centre Inc., Technology Prince Edward Island Inc. and 100417 P.E.I. Inc. all having March 31, 2007 year ends.

b) Differential reporting options

The company, with the unanimous consent of its shareholder, the Province of Prince Edward Island, has elected to prepare its financial statements in accordance with Canadian generally accepted accounting principles using the differential reporting options available to non-publicly accountable enterprises described below:

Investment subject to significant influence

The company has elected to use the cost method to account for its investment in Slemon Park Corporation. Slemon Park Corporation is subject to significant influence and would otherwise be accounted for using the equity method accounting. Details of the investment is as follows:

	2007 $	2006 $
56,000 common shares of Slemon Park Corporation	1	1

The investment is included in investment in non-marketable securities as disclosed in note 7.

In addition, the company has applied the following significant accounting policies without reference to differential reporting.

c) Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out basis, and market, which is defined as net realizable value.

d) Due from the Province of Prince Edward Island

i) Current operations

Operating grant – Province of Prince Edward Island is the balance due (to) from the Province for grants received that are less than (in excess of) expenditures incurred in the current year.

ii) Allowance for possible credit losses

The annual funded allowance for possible credit losses (expense or recovery) is recorded as an amount "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses". The "Due from the Province of Prince Edward Island – Allowance for Possible Credit Losses" is reduced when a write-off is recognized by both Prince Edward Island Business Development Inc. and the Province, with notes payable reduced correspondingly. The allowance for possible losses is also reduced by any payment received from the Province on the allowance for possible losses for guarantees. During the year, Prince Edward Island Business Development Inc. recorded an approved allowance and corresponding expense of $13,750,968 (2006 - $3,320,000).

e) Loans receivable

i) Loans

Working capital loans and craft loans are recorded at cost less an allowance for possible losses. These loans are due on demand and bear interest at rates ranging from 5.5% to 12% and are repayable within the next fiscal year.

Long-term loans are recorded at cost less an allowance for possible losses. These loans are issued at long-term interest rates and are repayable over various terms to a maximum of 15 years with interest rates ranging from 5.5% to 10%.

An impaired loan is a loan where in management's opinion there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

ii) Credit risk

The company has invested 59% (2006 - 44%) of its loan receivable portfolio in the shipbuilding, shipping sector with one company, representing a significant concentration of credit risk in the loans receivable portfolio.

f) Allowance for possible losses

An allowance for possible losses is maintained which is considered adequate to absorb all credit and investment related losses and off-balance sheet items including guarantees. The allowance is deducted from the applicable asset on the balance sheet, except for guarantees. The allowance for guarantees is included in accounts payable for Entrepreneurial Loan Program guarantees and as a provision for payment of loan guarantees on the balance sheet for the remaining guarantees allowance.

The allowance consists of specific and general provisions.

Specific provisions include the accumulated allowances for losses on particular assets required to reduce the book values to estimated realizable amounts. Specific provisions total $1,829,047 (2006 - $5,591,512). The accumulated allowances for losses on specific off-balance sheet items total $11,926,243 (2006 - $1,458,634). Of this total, $125,325 (2006 - $168,084) is included in accounts payable and accrued liabilities, and $11,800,913 (2006 - $1,290,550) is recorded as provision for payment of guarantees.

The company does not accrue interest on a loan receivable once a specific provision has been recorded against the loan.

The corporation reviews its loans portfolio, investments and advances, leased property and property holdings and guarantees on an ongoing basis to assess whether an allowance or write-off is required.

A variety of methods are used to determine the amount expected to be recovered from investments in and advances to private companies and property holdings, including estimated future cash flows and the estimated fair value of the underlying security and value of any collateral security taken.

A general provision of $1,230,041 (2006 - $1,354,139) includes accumulated allowances for losses which are prudential in nature and cannot be specifically identified. The general provision is based on past performance of similar assets, the level of the specific provision, management's judgement, the economic climate and the maturity and financial strength of the investee.

g) Investment in non-marketable securities

Investment in and advances to private companies, except for four preferred share investments, not considered to be concessionary are recorded at one-half of cost. An expense of 50% is charged to development programs when the funds are invested. The cost is reduced by any applicable allowance for possible losses. Any recovery exceeding the balance in share investment is taken into revenue when received.

The four investments in preferred shares of private companies that are not being carried at one-half of their cost are being carried at the lower of cost and estimated realizable value.

Investments under the Venture Capital Equity Program are recorded at cost less an allowance for possible losses.

Advances – Venture Capital Debt Program are recorded at cost, less an allowance for possible losses.

Investment in non-marketable securities are reviewed annually for potential declines in value and are written down or an allowance is recorded if a decline in value is considered evident. Write downs are included in development programs expense.

It is not practical within constraints of timeliness and cost to determine the fair value of the investment in private companies as these investments are in closely held private companies that have no organized financial market. The estimated realizable value of these investments and advances is based on expected future cash flows.

h) **Property holdings, property and equipment and amortization**

i) Property holdings

Property holdings are reported at the lower of cost, net of government grants, and estimated realizable value.

Office furniture and equipment and computer equipment are fully expensed in the year of acquisition, except for F.T.C. Enterprises Limited and Atlantic Technology Centre Inc. which record these items as a capital asset at cost less accumulated amortization. The amount expensed during the year ended March 31, 2007 was $15,785 (2006 - $35,931). Land improvements and buildings in Prince Edward Island Business Development Inc. are amortized using the straight-line method at the rates of 10% and 4% respectively. Land improvements and equipment included in industrial sites are amortized using the straight-line method at the annual rates of 8% and 20% respectively. Buildings held for resale and industrial malls are amortized using the straight-line method at the annual rate of 7%. Proceeds on the sale of industrial sites are recorded as a reduction in the carrying value of the asset. The test cells are amortized using the straight-line method at the annual rate of 5%. Signage is amortized using the straight-line method at the annual rate of 20%.

ii) Amortization

Property and equipment are amortized using the straight-line method at annual rates ranging from 5% to 100% as indicated in note 9.

A full year's amortization is recorded in the year of acquisition.

iii) Estimated realizable value

Estimated realizable value for industrial sites is the expected proceeds on resale and for industrial malls it is the property tax assessed value.

Estimated realizable value for land, buildings and equipment held for resale under lease purchase options is its property tax assessed value.

Estimated realizable value for the test cell is the net cost to construct the asset supported by a payment under a long-term lease agreement.

The reduction from cost to estimated realizable value is recorded as a provision for possible losses.

i) **Net investment in lease**

The company's subsidiaries accumulate costs of constructing assets, that are to be classified as capital leases, as assets under capital lease, and the related grants are considered deferred credits until the lease term begins. When the lease term begins, the assets under capital lease and deferred credits will be removed from the balance sheet and a net investment in leases recorded. The net investment in leases represents the net present value of the minimum lease payments receivable over the term of the lease plus the purchase option.

j) Programs assistance payable

Provincially funded non-cost shared program assistance is expensed and included in accrued liabilities when approved and accepted. Federal-Provincial cost shared programs are expensed when the funds are disbursed. Infrastructure assistance requiring future performance criteria is expensed when the funds are disbursed. Certain infrastructure assistance approved and not disbursed at year end is recorded as deferred charges.

The P.E.I. Food Products Development Fund is a provincially-funded research assistance program administered by F.T.C. Enterprises Limited. Grants under the program are included in income and a corresponding expense and accrued liability is recorded when the grant is received. The accrued liability is reduced when contributions are made to projects. There is $608,739 (2006 - $531,701) in unexpended assistance included in accrued liabilities at year-end. The company has committed funds to qualifying projects in the amount of $138,858 for the 2008 fiscal year.

k) Federal programs and grants

Federal programs

Prince Edward Island Business Development Inc. administers programs on behalf of the Federal Government. Any difference between federal funding received and program expenditures is recorded as an accounts receivable or accounts payable. During the year, Prince Edward Island Business Development Inc. disbursed $392,230 (2006 - $354,733) under the programs. Included in accounts receivable is $81,912 (2006 - $17,844) due from the federal government relating to the 2007 programs.

Included in the development program expenditures is $73,977 (2006 - $73,757) in costs related to salary costs of Prince Edward Island Business Development Inc. employees who deliver and administer these programs. This cost recovery has been recorded as a reduction in Prince Edward Island Business Development Inc.'s operating expenditures.

l) Post retirement benefits

The company provides retirement benefits to certain employees provided that they have at least 10 years of continuous service, reached a minimum age of 55 years, and contributed to the Superannuation Fund for at least 5 years. The benefit is based on one week's pay per year of service to a maximum of 26 weeks.

The accrual for post retirement benefits at March 31, 2007 is $343,571 (2006 - $266,972).

m) Pension liability

Most of the Corporation's staff are members of the Province of Prince Edward Island pension plan. Pension obligations are liabilities of the Province and not the corporation and no liability for these costs has been accrued by the corporation at March 31, 2007.

n) **Deferred credits**

Prince Edward Island Business Development Inc. and its subsidiaries have adopted the policy that contributions received towards the acquisition of property and equipment will be recorded as deferred credits and amortized to earnings on the same basis as the related property and equipment are amortized.

Contributions received and not spent on capital assets at year end are recorded as deferred contributions.

o) **Revenue recognition**

Prince Edward Island Business Development Inc. subsidiaries follow the percentage-of-completion method of accounting for revenue and expenditures on project contracts. The percentage-of-completion method records the organization's revenue based on the expenditures incurred and work completed on each contract in progress as at the balance sheet date. Unearned revenue is recorded as deferred revenue.

Work in progress in excess of progress billings is recorded at year end to appropriately recognize revenue under the percentage-of-completion basis of accounting when work in progress is in excess of actual billings generated. When progress billings are in excess of the related work in progress at year end the excess is recorded as progress billings in excess of work in progress.

In Atlantic Technology Centre Inc., long-term rental and common area revenue are recognized on a monthly basis in accordance with lease agreements. Short-term rentals are recognized when the space has been provided to customers.

Revenue from product royalties is recorded as received.

Revenues and earnings from rents, retail sales and utility user fees are recorded when collection is reasonably assured and all other significant conditions of service are met.

Interest accrued on loans is recognized as revenue in the period earned except where a loan is classified as impaired. Interest earned on an impaired loan is recognized as revenue only when it has been received.

Investment income is recorded in the period earned.

p) **Film and new media investments**

Investments made under the film and new media equity investments program are recorded as an expense under program expenditures when approved and accepted by the client. Revenue received as a recovery of those investments based on a percentage of income or under royalty agreements is recorded as revenue in the period received.

q) **Interest expense**

Interest paid by Prince Edward Island Business Development Inc. and its subsidiaries are included in the expenditure category to which it relates. Included in expenses is interest expense for 2007 as follows:

	2007 $	2006 $
Interest on short-term borrowings	599,857	431,823
Interest on long-term debt	2,440,159	2,848,344
	3,040,016	3,280,167

r) **Management estimates**

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period.

s) **Estimated realizable value of financial instruments**

Estimated realizable value (fair value) is subjective in nature requiring a variety of valuation techniques and assumptions. Some of the company's financial instruments, specifically notes receivable, investment in subsidiaries and net investment in leases, are not exchangeable and it is difficult, and often not practical, to determine their estimated realizable value. Where it is possible to estimate realizable value, the company assumes that it will not sell the assets or the liabilities, taking into account only changes in credit risk as credit risk is the main cause of change in the estimated realizable value of the company's financial instruments. Credit risk is defined as the risk that the note holder will fail to discharge an obligation in whole or in part resulting in a financial loss to this company.

3 Market value of investments

Cash and short-term investments and funds held in trust of $2,052,334 (2006 - $4,228,716) consist of portfolio investments and cash having a quoted market value of $2,052,346 (2006 - $4,229,559). The majority of marketable securities have a fixed value and it is expected that most securities will be held until they mature.

4 Accounts receivable and inventory

The accounts receivable have been reduced by an allowance for possible losses of $102,085 (2006 - $169,314).

5 Due from the Province of Prince Edward Island

	2007 $	2006 $
Current operations		
Operating grant - Province of Prince Edward Island	4,711,532	876,726
Allowance for possible losses		
Balance - beginning of year	8,068,117	5,254,438
Current year recovery	-	210,000
Current year's allowance for possible losses expense	13,750,968	3,320,000
Current year write-offs	(6,959,079)	(602,795)
Payment on provision for possible losses	-	(113,526)
	14,860,006	8,068,117
Balance - End of year	19,571,538	8,944,843

6 Loans receivable

	Total $	Impaired loans included in total $	Allowance for possible losses General $	Allowance for possible losses Specific $	2007 Net $	2006 Net $
Working capital and craft loans	5,157,442	911,988	991,342	747,047	3,419,053	5,502,871
Long-term loans						
Shipbuilding/shipping	21,599,998	-	-	-	21,599,998	21,049,998
Manufacturing and processing	1,924,580	1,371,580	55,802	460,000	1,408,778	13,954,039
Tourism	205,101	-	29,206	-	175,895	87,894
Small business	376,155	-	106,001	-	270,154	1,587,470
Other	277,076	-	47,690	-	229,386	184,661
	24,382,910	1,371,580	238,699	460,000	23,684,211	36,864,062
Total Loans Receivable	29,540,352	2,283,568	1,230,041	1,207,047	27,103,264	42,366,933
Less: loans due within the next fiscal year	4,677,438	1,105,540	798,830	840,825	3,037,783	8,295,050
	24,862,914	1,178,028	431,211	366,222	24,065,481	34,071,883

	2007 $	2006 $
Continuity of allowance for possible losses		
Allowance for possible losses - Beginning of year	6,277,452	3,333,196
Add: Provision recorded during the year	3,044,600	2,944,256
Less: Write-offs recorded during the year	(6,884,964)	-
Allowance for possible losses - End of year	2,437,088	6,277,452

7 Investment in non-marketable securities

	2007 $	2006 $
Investment in private companies		
Small Business and Venture Capital Equity Program investments	567,389	647,577
Less: Allowance for possible losses	(372,000)	(155,000)
	195,389	492,577
56,000 common shares of Slemon Park Corporation at cost	1	1
Investment in preferred shares of private corporations	2,469,812	2,479,812
Net royalties receivable from private corporation	31,619	31,619
Less: Allowance for possible losses	(281,619)	(250,000)
	2,219,813	2,261,432
	2,415,202	2,754,009
Advances - Venture Capital Debt Program		
Advances to private companies - bearing interest at variable rates, repayable based on performance	-	95,115
Less: Allowance for possible losses	-	(95,115)
	-	-
	2,415,202	2,754,009

Of the preferred shares in private corporations, $50,000 are to be redeemed by the issuer at the rate of $10,000 per year, with the first redemption to occur in the 2008 year.

The net royalties receivable are due to F.T.C. Enterprises Limited, are non-interest bearing and are to be recoverable in the amount of 1.25% of gross income received by the purchaser for the direct sales of the products sold or 12.5% of net licensing fees received by the purchaser for licensing agreements, with one-half of these royalties being payable to the original patent holders by F.T.C. Enterprises Limited under an assignment. During the year, F.T.C. Enterprises Limited received net royalties of nil (2006 - nil).

	2007 $	2006 $
Continuity of allowance for possible losses		
Allowance for possible losses - Beginning of year	531,734	286,619
Add: Provision recorded during the year	196,000	245,115
Less: Write-offs recorded during the year	(74,115)	-
Allowance for possible losses - End of year	653,619	531,734

8 Property holdings

	Cost $	Accumulated amortization $	2007 Net $	2006 Net $
Prince Edward Island Business Development Inc.				
Land	981,500	-	981,500	981,500
Land improvements	44,765	26,861	17,904	22,383
Buildings	1,611,451	386,748	1,224,703	1,289,147
Land, buildings and equipment held for resale or under lease purchase options	2,486,861	1,210,127	1,276,734	1,323,357
Industrial sites	10,794,642	9,616,275	1,178,367	1,541,439
Industrial malls	2,806,046	2,806,046	-	-
Test cell	4,937,000	1,084,299	3,852,701	4,099,549
Signage	64,067	62,411	1,656	14,468
	23,726,332	15,192,767	8,533,565	9,271,843

Included in land, buildings and equipment held for resale or under lease purchase options is land of $871,302 (2006 - $862,802).

Included in industrial sites is land of $263,360 (2006 - $263,360)

Environmental Industrial Services Inc.				
Property for development - land	929,085	-	929,085	929,085
Soft costs	86,307	-	86,307	86,307
	1,015,392	-	1,015,392	1,015,392
	24,741,724	15,192,767	9,548,957	10,287,235

9 Property and equipment

	Amortization rate %	Cost $	Accumulated amortization $	2007 Net $	2006 Net $
F.T.C. Enterprises Limited					
Buildings	5 - 25 SL	2,544,514	2,204,864	339,650	466,875
AIF Building	25 SL	1,497,297	1,122,820	374,477	750,085
Pilot plant and laboratory equipment	10 - 25 SL	3,091,525	2,321,665	769,860	1,084,000
Computer and audio visual equipment	33 1/3 SL	492,812	488,928	3,884	9,866
Office furniture and equipment	20 SL	171,779	171,779	-	405
AIF equipment	25 SL	1,720,318	1,260,019	460,299	958,018
		9,518,245	7,570,075	1,948,170	3,269,249
Gateway Village Development Inc.					
Land		1	-	1	1
Building - Phase I	5 SL	3,095,313	1,521,863	1,573,450	1,728,216
- Phase II	5 SL	1,656,309	745,339	910,970	993,786
Land improvements					
- Phase I	10 SL	816,743	803,131	13,612	95,286
- Phase II	10 SL	357,244	320,907	36,337	72,061
Interpretative Centre	20 SL	1,078,080	1,078,080	-	-
Retail fixtures - Phase I	20 SL	77,466	77,466	-	-
Phase II	20 SL	95,970	95,970	-	-
Signage	20 SL	12,798	12,798	-	-
		7,189,924	4,655,554	2,534,370	2,889,350
Environmental Industrial Services Inc.					
Bloomfield Mall					
Land improvements	10 SL	142,328	64,048	78,280	92,513
Building	4 SL	1,823,975	328,316	1,495,659	1,568,618
Waste treatment facility	3.33 SL	293,493	41,889	251,604	261,387
Truck	33 1/3 SL	25,350	25,350	-	8,463
		2,285,146	459,603	1,825,543	1,930,981
Atlantic Technology Centre Inc.					
Land		2,391,916	-	2,391,916	2,391,916
Land improvements	10 SL	67,000	30,138	36,862	43,557
Building	2.5 SL	18,872,238	2,118,222	16,754,016	17,225,820
Furniture and fixtures	20 SL	313,273	281,416	31,857	94,504
Computer hardware	33 1/3 SL	1,503,111	1,474,161	28,950	-
Computer software	100 SL	61,600	61,600	-	-
		23,209,138	3,965,537	19,243,601	19,755,797
		42,202,453	16,650,769	25,551,684	27,845,377

SL = Straight line

10 Funds held in trust

Under the terms of an agreement between Corporate Services Ltd., Prince Edward Island Government Economic Development Fund (No. IV) Inc., (Island Fund IV), and Prince Edward Island Government Economic Development Fund (No. V) Inc., (Island Fund V), Corporate Services Ltd. is to act as the Escrow Agent for investors of a $30,000,000 venture capital fund offering for each of the funds.

Corporate Services Ltd. receives the subscription forms from potential investors and holds the funds in trust until the commencement date. The commencement date is to be established within 100 days of receipt of twelve subscriptions. On the commencement date, the Escrow Agent shall:

- Advance to Island Fund IV or Island Fund V

- 70% of subscription proceeds to be reinvested; and
- 10% of subscription proceeds to be used to cover offering and operating costs;

Interest earned on the account while the funds are in escrow is the property of the specific fund.

- Establish a repayment account to retain on deposit the remaining 20% of the subscription proceeds to be invested in liquid, low-risk investment account, for the purpose of refunding rejected investors. Interest earned on the repayment account accrue to the benefit of the specific project, Island Investment Development Inc., or Island Fund IV or V as applicable, and not Corporate Services Ltd.

Funds held in trust consist of the following

	2007 $	2006 $
Funds held in trust - principal	31,512	30,294
Repayment accounts	5,355	1,150,151
	36,867	1,180,445

The funds held in trust consist of amounts owing to three investors who have not been located. The original amount owed to the investors of $26,485 (2006 - $26,485) has been held in trust along with $5,027 (2006 - $3,809) of interest which has been earned to March 31, 2007.

11 Net investment in leases

The net investment in leases represents the minimum lease payments receivable over the term of the lease plus purchase options receivable recorded at net present value. The net investment in leases consists of the following:

Environmental Industrial Services Inc.

Environmental Industrial Services Inc. has entered into agreements to lease three properties on terms that require these leases to be accounted for as capital leases. In accounting for the capital leases, the property and equipment and related deferred credits have been removed and the lease payments receivable recorded as net investment in leases. The net investment in leases consists of the following:

- McCain Foods Limited – 10-year lease expiring December 2010, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $20.
- Irving Pulp and Paper Limited – 8-year lease expiring December 2011, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $10.

Both leases are renewable for an additional 10 years at the expiration of the original lease term at the option of the lessee.

- Small Fry Snack Foods Inc. – 9-year lease term expiring December 2005, with the lessee paying all operating costs, an annual lease payment of nil and a purchase option of $7,260.

	2007 $	2006 $
Total minimum lease payments	7,290	7,290
Less: current portion	(7,290)	(7,290)
	-	-

Prince Edward Island Business Development Inc.

a) The net investment in lease represents the purchase option receivable from the lessee, due July 1, 2015.

The net investment in lease is recorded at the net present value of the total lease payments using a discount rate of 5.5%, calculated as follows:

	2007 $	2006 $
Total of lease payments to be received to July 1, 2015	1,000,030	1,000,030
Less: Portion representing interest at 5.5%	(344,000)	(387,000)
Net present value of net investment in lease	656,030	613,030

b)

Total minimum lease payments on capital lease on building, due December 31, 2011, receivable in monthly instalments of $11,249, commencing January 2007, secured by land and building located in Montague, Prince Edward Island	641,202	-
Less: Portion representing interest at 4%	(72,898)	-
Net present value of net investment in lease	568,304	-
Less: Current portion	(113,691)	-
	454,613	-
	1,110,643	613,030

12 Short-term notes payable

	2007 $	2006 $
Demand note payable to Island Investment Development Inc.	15,000,000	-
Demand note payable to Prince Edward Island Century 2000 Fund Inc., repaid during the year	-	12,550,603
	15,000,000	12,550,603

During the year, the company entered into an agreement with Island Investment Development Inc., a provincial Crown corporation, to obtain a $15,000,000 revolving line of credit. The balance of the line of credit at March 31, 2007 is $15,000,000 (2006 - nil). Interest is charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount is repayable on demand.

The demand note is secured by a promissory note for $15,000,000 and a revolving credit agreement.

During the prior year, the company entered into an agreement with Prince Edward Island Century 2000 Fund Inc., a subsidiary of a provincial Crown corporation, to obtain a $15,000,000 revolving line of credit. This agreement was terminated August 11, 2006. The balance of the line of credit at March 31, 2007 is nil (2006 - $12,550,603). Interest was charged monthly at a rate equal to the Department of Provincial Treasury of Prince Edward Island's short-term lending rate and the total amount was repaid during the year.

13 Notes payable and long-term debt

	2007 $	2006 $
4.00% promissory note payable, due March 1, 2015 with interest to be paid quarterly and principal due at maturity	6,600,000	6,600,000
5.33% note payable, interest payments only commencing November 1, 2004 and payable until February 2010, principal payments commence February 1, 2010 with one payment of $85,714 followed by 55 monthly principal payments of $257,143, three monthly principal payments of $171,429 and three monthly principal payments of $85,714 plus interest, maturing March 1, 2015	11,286,757	15,000,000
6.62% Bank of Nova Scotia mortgage, repayable $40,333 monthly plus interest, maturing August 30, 2017	9,881,667	10,365,667
4.00% promissory note payable, due April 2007 with interest payable at maturity	2,202,238	-
4.00% promissory note payable, due January 2012, repayable $11,249 monthly including principal and interest	592,290	-
4.00% promissory note, repaid during the year	-	13,750,000
6.60% note payable, repaid during the year	-	3,779,557
4.00% promissory note, repaid during the year	-	576,750
5.65% Bank of Nova Scotia loan, repaid during the year	-	2,284,991
	30,562,952	52,356,965
Less: Current portion	3,314,215	4,841,085
	27,248,737	47,515,880

The 5.33% note payable is issued to the Province of Prince Edward Island.

The 4% promissory notes are payable to Island Investment Development Inc., a provincial Crown corporation and Prince Edward Island Century Fund 2000 Inc., a subsidiary of Island Investment Development Inc.

The notes payable and long-term debt are unsecured, except for the 6.62% Bank of Nova Scotia mortgage, which is secured by a full guarantee provided by the Province of Prince Edward Island.

The entire balance of the 4.00% promissory note payable due April 2007 is classified as current liability.

The aggregate amount of principal payments required in each of the next five years to meet retirement provisions is as follows:

	$
Year ending March 31, 2008	3,314,215
2009	1,630,574
2010	1,978,198
2011	4,726,059
2012	4,708,339

14 Obligation under capital lease

Atlantic Technology Centre Inc.

The following is an analysis of the future minimum lease payments due on a capital lease. The lease expires October 2007.

	2007 $	2006 $
4% lease, payable in annual instalments $105,200 in 2004, $182,400 in 2005, $326,400 in 2006 and $374,400 in 2007, payable on October 31 of each year	374,400	700,800
Less: Amount representing interest	14,400	40,800
	360,000	660,000
Less: current portion	360,000	300,000
	-	360,000

The total annual principal payments over the remaining term of the lease are as follows:

	$
Year ending March 31, 2008	360,000

15 Deferred credits

	Cost $	Accumulated amortization $	2007 Net $	2006 Net $
F.T.C. Enterprises Limited				
Buildings	6,268,560	4,268,240	2,000,320	2,028,036
Pilot plant and laboratory equipment	1,247,852	949,100	298,752	614,385
	7,516,412	5,217,340	2,299,072	2,642,421
Gateway Village Development Inc.				
Building - Phase I	3,095,313	1,521,860	1,573,453	1,728,219
Land improvements	816,743	803,134	13,609	95,283
Interpretative Centre	1,072,001	1,072,001	-	-
Retail fixtures	73,735	73,735	-	-
	5,057,792	3,470,730	1,587,062	1,823,502
Environmental Industrial Services Inc.				
Bloomfield Mall	879,812	196,793	683,019	726,750
Atlantic Technology Centre Inc.				
Building	6,861,000	753,444	6,107,556	6,279,084
Furniture and fixtures	313,273	281,415	31,858	94,509
Computer hardware	1,424,928	1,424,928	-	-
Computer software	50,800	50,800	-	-
	8,650,001	2,510,587	6,139,414	6,373,593
Prince Edward Island Business Development Inc.				
Industrial sites	7,836,085	6,678,179	1,157,906	1,520,978
	29,940,102	18,073,629	11,866,473	13,087,244

16 Reserve for future expenditure

During the 2005 fiscal year, Environmental Industrial Services Inc. took over certain liabilities from the Department of Environment, Energy and Forestry. The Corporation received nil (2006 - $173,471) in capital replacement funds which have been recorded as a reserve for future expenditures. The reserve is currently under-funded by $67,106 as of March 31, 2007.

Included in cash and short-term investments is $93,417 (2006 - $160,523) which has been restricted to fund the reserve for future expenditures.

During the year, nil (2006 - $3,090) was expended from the reserve.

17 Contingent liabilities

a) The corporation is contingently liable under loan guarantees at March 31 as follows:

	2007 $	2006 $
Loan guarantees	6,613,529	8,304,786
Provision for possible payment	1,249,950	1,290,550
Lease indemnifiation guarantee - net present value of indemnified payments	13,007,958	-
Provision for possible payment	9,755,969	-

	2007 $	2006 $
Continuity of allowance for possible losses		
Allowance for possible losses - Beginning of year	1,290,550	1,397,467
Less: Recovery of provision recorded during the year	10,510,368	(106,917)
Allowance for possible losses - End of year	11,800,918	1,290,550

The provision for possible payment for the loan guarantees is included in the overall allowance for possible losses.

The corporation is also contingently liable under entrepreneur loan program guarantees of $849,825 (2006 - $1,120,417) for which a provision for possible losses of $127,325 (2006 - $168,084) has been included in accounts payable and accrued liabilities.

Included in loan guarantees is $495,000 (2006 - $495,000) for an equity investment and $1,313,425 (2006 - $1,498,587) in guarantees for line of credit balances which have a carrying value of $1,313,425 (2006 - $1,228,587) at March 31, 2007. Also included is $4,804,936 (2006 - $6,301,284) in guarantees for term loans which have a carrying value of $4,805,104 (2006 - $6,301,284) at March 31, 2007. The above guarantees have various expiry dates ranging from April 2007 to May 2023.

The guarantees are secured by various assets and proceeds from liquidation are expected to cover the net carrying amount of the guarantees.

Related party amounts

Included in loan guarantees is a guarantee of a term loan in the amount of nil (2006 - $200,000) provided to a Crown corporation, P.E.I. Energy Corporation, a guarantee of a preferred share investment in the amount of $495,000 (2006 - $495,000) provided to a Crown corporation, PEI Lending Agency and a guarantee of a term loan in the amount of $2,093,737 (2006 - $2,229,157) provided to Slemon Park Corporation, which is controlled by a wholly-owned subsidiary of Prince Edward Island Business Development Inc.

b) Prince Edward Island Business Development Inc. (the "company") has indemnified lease payments to a landlord on behalf of a private company (the "tenant"). In the case of default by the tenant, the maximum amount indemnified is $108,333 per month, pursuant to the lease ending February 2025. The Company also has the option to acquire the premises from the landlord based on a predetermined calculation and have the lease assigned. Under this agreement, the option value at March 31, 2006 is $13,007,958. If the Company opts to acquire the premises, the proceeds from the sale of the premises would be used to recover all or a portion of amounts paid under the guarantee. The value of the potential sales proceeds is estimated to be $3,251,996.

c) The company, along with other parties, has been named in a claim by a private company seeking general and aggravated damages and special damages in the amount of $11,187,345, plus other unspecified damages and costs. It is management's opinion that a liability, if any, is unlikely and undeterminable at this time and no provision has been made in the accounts for future possible losses related to this claim.

d) Prince Edward Island Business Development Inc. has been named in an action filed by a private company seeking unspecified damages. Management believes this claim is completely without foundation and that the liability resulting from this claim, if any, is unlikely at this time and, accordingly, no provision has been recorded in the accounts for future possible losses.

18 Contributed surplus

During the fiscal year, the shareholder and directors of Gateway Village Development Inc. approved the transfer from contributed surplus of $20,258 to offset the operating deficit for that company for the year ended March 31, 2007

19 Commitments

a) F.T.C. Enterprises Limited has entered into a twenty-five year lease expiring November 2013 with the University of Prince Edward Island for the land upon which the corporation constructed its facilities. The lease cost is $1 per year and is renewable for a further term of twenty-five years for the same annual consideration.

b) The minimum annual lease payments required by Atlantic Technology Centre Inc. over the next year under an operating lease for network management services and technological equipment are $40,000.

c) Loans approved by Prince Edward Island Business Development Inc. but not disbursed at March 31, 2007 total $4,991,281.

20 Operating agreements

Environmental Industrial Services Inc. has agreements with McCain Foods Limited, Irving Pulp & Paper Limited and Small Fry Snack Foods Inc. to operate wastewater treatment facilities to extend to December 2010, 2011 and 2005, respectively, and stipulate that the companies shall pay Environmental Industrial Services Inc. a user fee equal to the operating costs of the facilities excluding interest and amortization charges. The companies pay these operating costs directly and accordingly a user fee has not been charged by Environmental Industrial Services Inc.

Environmental Industrial Services Inc. is responsible for operating the Brudenell and Crowbush Water and Sewer Utilities on behalf of the Province of Prince Edward Island. Environmental Industrial Services Inc. pays the operating costs of the Utility and recovers these costs from the users of the utility on a pro-rata basis based on usage.

During the year, the company recovered $2,107 (2006 - $8,524) in costs from related parties, Tourism PEI and Golf Links Prince Edward Island Inc. Tourism PEI is a provincial Crown corporation and Golf Links Prince Edward Island Inc. is a subsidiary of Tourism PEI.

21 Related party transactions

Balance sheet

Accounts receivable

Included in accounts receivable is $134,892 (2006 - $307,337) due from the Province of Prince Edward Island and $137,813 (2006 - $239,737) due from related companies.

Funds held in trust

The funds held in trust include amounts due to Island Investment Development Inc., a provincial Crown corporation and its subsidiaries as follows:

	2007 $	2006 $
Advances from Island Investment Development Inc.	5,355	228,400
Advances from Island Fund IV	-	427,000
Advances from Island Fund V	-	494,749
	5,355	1,150,149

The advances are non-interest bearing and are repayable on demand.

Property and equipment

The Province of P.E.I. transferred land to Gateway Village Development Inc. in 1997. In accordance with the terms of the transfer, the exchange and carrying amounts of the land was established as $1.

The Province of Prince Edward Island conveys land to the company periodically to be used for development purposes. The exchange and carrying amounts of land when transferred into the company is nil.

Accounts payable

Included in accounts payable and accrued liabilities is $644,835 (2006 - $715,240) payable to the Province of Prince Edward Island, and $25,596 (2006 - $261,250) due to related companies.

Deferred credits

During the year, F.T.C. Enterprises Limited received grants of $746,507 (2006 - $596,500) from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as deferred credits and included in program expenditures for the year. These amounts have not been eliminated on consolidation.

During the year, Atlantic Technology Centre Inc. received nil (2006 - $150,000) from Prince Edward Island Business Development Inc. to fund the acquisition of capital assets. The cumulative total received to March 31, 2007 in grants to fund capital asset acquisitions of $4,150,000 is included in deferred credits. These amounts have not been eliminated on consolidation.

Contributed surplus

Gateway Village Development Inc. and F.T.C. Enterprises Limited have received a cumulative total of $1,786,248 in funds from the Province of Prince Edward Island through Prince Edward Island Business Development Inc. that have been accounted for as contributed surplus less $225,953 transferred to offset deficit in prior years. This contribution has not been eliminated on consolidation.

Statement of revenue and expenditures

Management fees

During the year, management fees of $250,000 (2006 - $250,000) were received from Island Investment Development Inc. and recorded as a reduction in operating expenditures.

Development programs

Included in development programs is $156,471 (2006 - nil) to other Crown corporations.

Interest expense

Included in expenditures is $1,048,951 (2006 - $1,426,954) in interest paid to the Province of Prince Edward Island.

Included in expenditures is $765,058 (2006 - $907,408) in interest paid to a subsidiary of a provincial Crown corporation.

Other

During the year, Environmental Industrial Services Inc. received nil (2006 - $50,641) in costs from a related party, Prince Edward Island Department of Transportation and $2,107 (2006 - nil) in costs from Tourism PEI, a provincial crown corporation, and its wholly owned subsidiary, Golf Links Prince Edward Island Inc..

The company provides office premises to Tourism PEI for nil consideration.

The company rents land for the annual amount of $2,120 plus applicable taxes from Slemon Park Corporation under a fifty-year lease agreement, effective for the term September 28, 2001 to September 28, 2051.

100417 P.E.I. Inc., a wholly-owned subsidiary of Prince Edward Island Business Development Inc., owns 56% of the common shares of Slemon Park Corporation.

22 Comparative figures

Certain comparative figure presented for the 2006 fiscal year have been restated to conform with the financial statement presentation adopted in the current year.

23 Subsequent event

Subsequent to year end, Gateway Village Development Inc. entered into an agreement to sell land and buildings known as Gateway Centre and the Shops of Gateway Village located in Borden, Prince Edward Island for proceeds of $1,400,000. The assets include inventory contained within the property as well as the names "The Official Island Store", "Gateway Village", "Gateway Center" and "The Shops of Gateway Village", however Gateway Village Development Inc. shall not be obliged to change its corporate name. Gateway Village Development Inc. and its parent company, Prince Edward Island Business Development Inc., have committed to a 24 month non-competition period with respect to construction and operation of commercial rental properties as part of the sale agreement.

24 Interest rate risk

The following table sets out assets and liabilities on the earlier of contractual maturity or repricing date. Use of the table to derive information about the company's interest rate risk position is limited by the fact that certain borrowers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing dates. For example, notes receivable are shown at contractual maturity but certain notes could prepay earlier.

	Under 1 year $	Over 1 to 5 years $	Over 5 years $	Not interest rate sensitive $	Total $
Assets					
Cash and short-term investments	2,015,467	-	-	-	2,015,467
Accounts receivable	-	-	-	1,483,405	1,483,405
Accrued interest receivable	-	-	-	32,891	32,891
Grant receivable - ACOA	-	-	-	113,260	113,260
Inventory	-	-	-	58,078	58,078
Prepaid expenses	-	-	-	13,454	13,454
Loans receivable (net of allowance for losses)	3,037,783	14,206,655	9,858,826	-	27,103,264
Effective interest rate	8.45%	6.37%	6.19%		
Due from Province	-	-	-	19,571,538	19,571,538
Investment in non-marketable securities	430,000	520,000	390,000	1,075,202	2,415,202
Effective interest rate	7.14%	4.00%	4.00%		
Property holdings	-	-	-	9,548,957	9,548,957
Property and equipment	-	-	-	25,551,684	25,551,684
Funds held in trust	-	-	-	36,867	36,867
Net investment in leases	-	-	-	1,231,624	1,231,624
Total assets	5,483,250	14,726,655	10,248,826	58,716,960	89,175,691
Liabilities and surplus					
Accounts payable and accrued liabilities	-	-	-	17,663,012	17,663,012
Provision for payment of guarantees	-	-	-	11,800,918	11,800,918
Deferred revenue	-	-	-	39,444	39,444
Progress billing in excess of work-in-progress	-	-	-	86,915	86,915
Short-term notes payable	15,000,000	-	-	-	15,000,000
Effective interest rate	4.00%				
Notes payable	3,314,214	15,014,603	12,234,135	-	30,562,952
Effective interest rate	4.24%	4.79%	5.53%		
Obligation under capital lease	360,000	-	-	-	360,000
Effective interest rate	4.00%		-		
Funds held in trust	-	-	-	36,867	36,867
Deferred credits	-	-	-	11,866,473	11,866,473
Reserve for future expenditures	-	-	-	160,523	160,523
Contributed surplus	-	-	-	1,540,037	1,540,037
Retained earnings	-	-	-	58,550	58,550
Total liabilities and deficit	18,674,214	15,014,603	12,234,135	43,252,739	89,175,691
Interest rate sensitivity gap	(13,190,964)	(287,948)	(1,985,309)	15,464,221	-

Prince Edward Island Business Development Inc.

Schedule of Retail Operations

For the year ended March 31, 2007

	2007 $	2006 $
Revenue		
Island Store	296,888	303,074
Consignment sales - net	396	600
	297,284	303,674
Cost of goods sold		
Island Store	152,856	158,989
Gross margin	144,428	144,685
Expenditures		
Salaries and benefits	53,487	60,973
Occupancy charge	29,688	30,314
Bank charges and interest	3,826	4,458
Travel and training	79	98
Packaging	1,291	1,899
Advertising and promotion	206	873
Electricity	2,302	1,868
Telecommunications	1,212	1,568
Administration	986	1,175
Maintenance and cleaning	302	1,001
Exchange gain	(430)	(381)
	92,949	103,846